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# Industrial Policies and structural transformation in Tunisia and Morocco

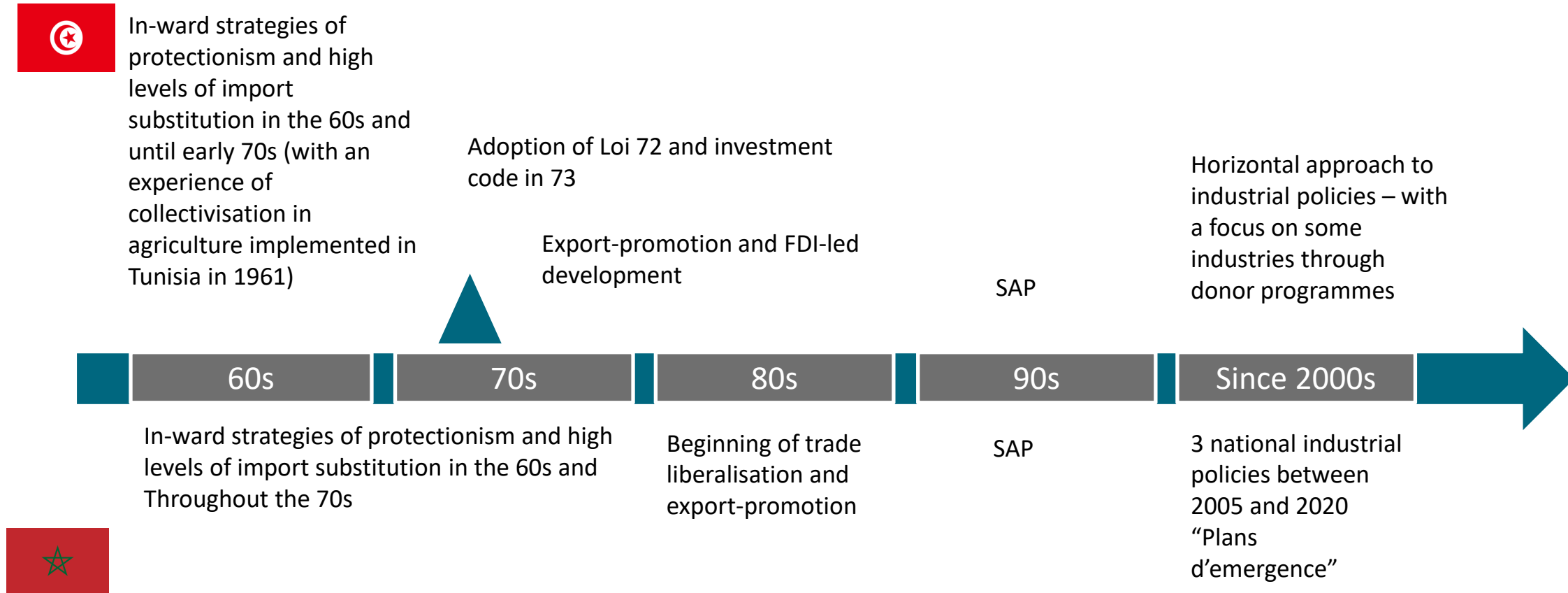
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**Government Advisory**



# Both countries have been on a similar path for industrial policy, until the early 2000s

Historically, Tunisia and Morocco are competitors in the region. Both countries have relatively same comparative advantages, including the same natural resources (such as phosphate) and they both export to the same markets (mainly European countries). Both countries have historically focused on the same sectors, starting from textiles in the 1970s and 1980s and more recently on more complex and skill-intensive sectors such as pharmaceutical and electrical machineries.





# Morocco took a serious approach to its industrial policies since the early 2000s



- In 2002, the authorities established the Hassan II Fund for Economic and Social Development in 2002. The fund intervened to support the financing of physical infrastructure in specific sectors, including automotive and aeronautics industries.
- In 2002, the authorities established the back-then National Agency for the Promotion of Small and Medium Enterprises (Agence Nationale pour la Promotion des Petites et Moyennes Entreprises) and now Maroc PME. The agency focused on improving SMEs' productivity and competitiveness through "upgrading" programmes.

## *Plan d'émergence Maroc - a turning point for industrial policies in 2005*

- **2005 marked a turning point for industrial policies in Morocco**, with the adoption of three industrial plans between 2005 and 2015, all including a mix of transversal and targeted industrial policies, with an update of the list of targeted sectors in each new plan.
- Between 2005 and 2015, Morocco applied a self-discovery process, with updated interventions and list of targeted sectors and an increased focus on manufacturing development. The design and implementation of the plans also improved in time, with more collaboration with the private sector in the second and third industrial policies and better monitoring and evaluation frameworks, including through the introduction of "performance contracts" for each institution involved in the implementation.
- **For the first 2005 industrial plan, a selection exercise (based on Asian countries' experiences and competitive advantages of Morocco) resulted in focusing on the following six economic sectors** – known as Morocco's Global Jobs (*Métiers Mondiaux du Maroc* – MMM):
  - **Aeronautics food industry, textile, electronics and automobiles as well as offshoring** (subcontracted activities including in services)



# The national industrial policies kept on being improved and authorities showed a commitment to learning and self-discovery

## Second wave in 2009

- The framework of Plan d'Emergence was refined and updated in 2009 with the adoption of the National Pact for Industrial Emergence (PNEI). PNEI provided a stronger focus on the competitiveness and transversal policies, with an identification of new targeted sectors that were added to the list identified in 2005, namely: **pharmaceutical and chemical and para-chemical sectors** and detailed the incentives provided to investors and entrepreneurs engaging in the targeted sectors, mainly financed through the Hassan II Fund for Economic and Social Development.
- the PNEI was developed and **implemented based on increased collaboration with different actors, including private sector actors, compared to the first Plan d'Emergence.**

## Third wave in 2014 (2014-2020)

- The Plan for Industrial Acceleration (Plan d'Accélération Industrielle, PAI) was the third industrial policy adopted in 2014 for the period 2014–2020 and the success of the PNEI and took the same approach as Plan d'Emergence and PNEI: a mix of transversal and targeted industrial policies.
- The list of targeted sectors was refined further, adding to the list included in the PNEI building materials, **renewable energy, electrical industry and metallurgy and metalworking, and withdrawing food-processing.**
- In terms of transversal support, PAI focuses on the creation of clusters and eco-systems, with high participation of the private sector in their establishment, including through the creation of public-private training institutions and an improved and increased collaboration with business associations. The plan also focuses on a better integration in global value chains (GVCs) by improving linkages between multinational firms and domestic firms, especially SMEs, highlighting further the importance of inclusiveness and the domestic impact of FDIs.



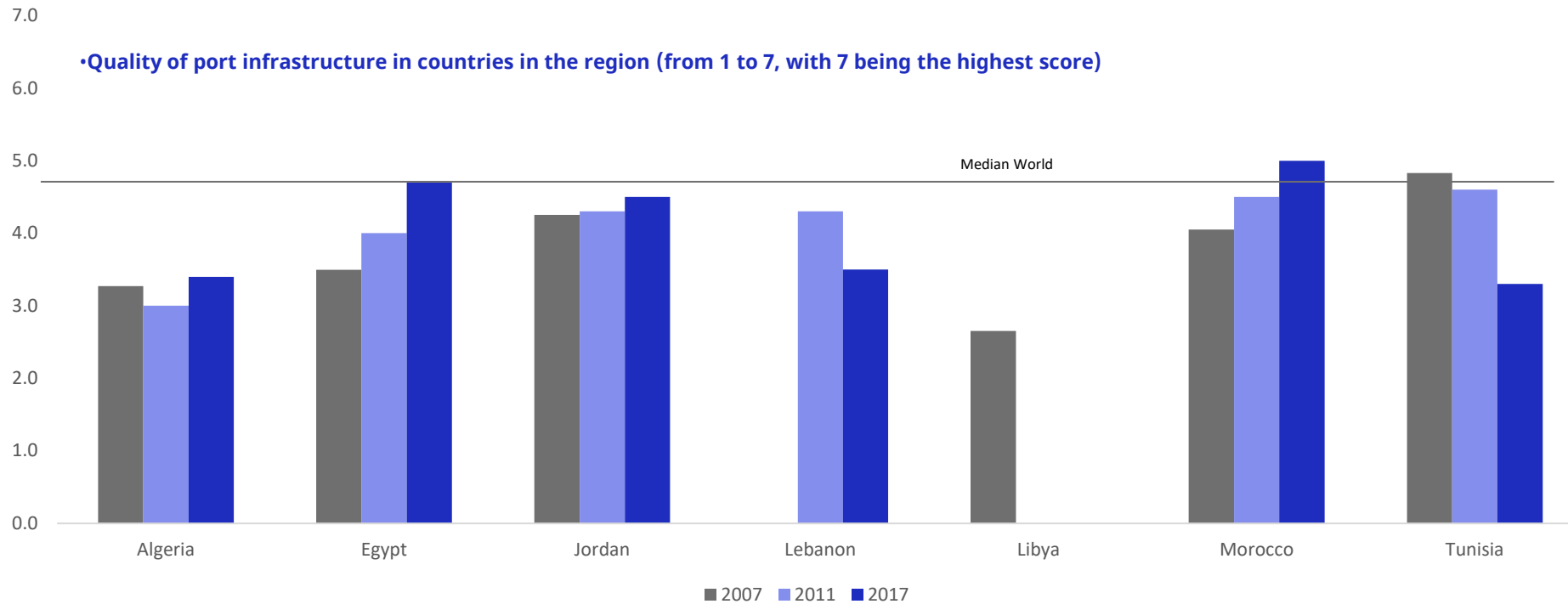
# In Tunisia, the industrial policy was disrupted by the 2011 revolution

- Loi 72 was, at least in theory, sector-agnostic. However, their implementation focused on selected manufacturing sectors, mainly textiles and, to a lesser extent, agro-processing and mechanical, electrical and electronic industries.
- The authorities **did not formally adopt new vertical industrial policies** that identified strategic focus sectors but rather implemented a couple of programmes with financial and technical supports from donors.
- In 2010, the Tunisian government adopted a new industrial strategy, “Horizon 2016”. The elaboration of the strategy followed a long consultation process with many stakeholders from the public and the private sectors, led by the Ministry of Industry, Energy and SMEs . The industrial policy's objective is to transition the economy to an innovation-oriented and knowledge-based economy while capitalizing on the success of the historic sectors (such as textiles, agro-processing, electrical and electronic industries). The strategy identifies two layers of new sectors and activities: a) services that leading complement to manufacturing, including ICT, Business Support Services and logistics and b) sophisticated high value-added activities, including electronic industries, automotive and aeronautics industries, technical plastics, pharmaceutical and paramedical industries and ICT. The strategy had the objective of doubling exports and tripling investment between 2006 and 2016.
- However, the strategy was never really implemented due to the 2011 revolution, and Tunisia has witnessed over the last 10 years **an unstable political system that led to the formation of 10 governments since 2011.**



# In parallel to the focused support in sectors, Morocco made huge improvement in the quality of its port infrastructure...

Morocco has made substantial investments to improve the quality of Tangier port, which in 2019 became the largest port in the Mediterranean in terms of capacity after the opening of new terminals. The quality of the port infrastructure in Tunisia has been decreasing over the last years. In Tunisia, Radès port, the main deep seaport, suffers from significant challenges, including significant delays and low workers productivity.

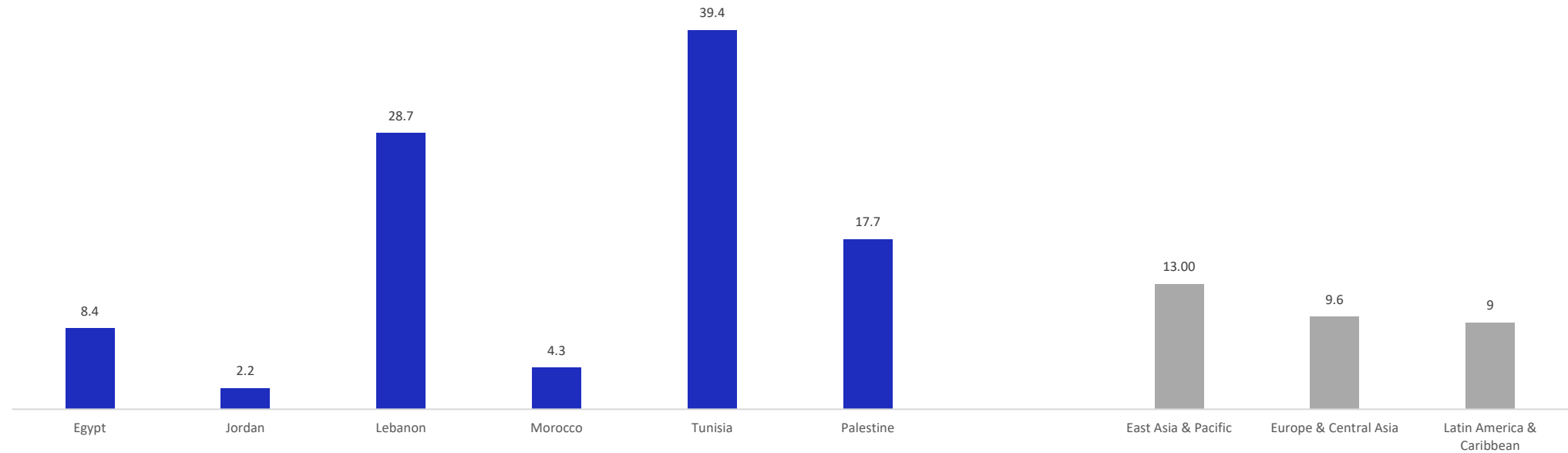


Source: World Economic Forum, (1=extremely underdeveloped to 7=well developed and efficient by international standards).



## ...with also a relative better functioning financial sector than in Tunisia

Share of enterprises declaring access to finance as their biggest challenge

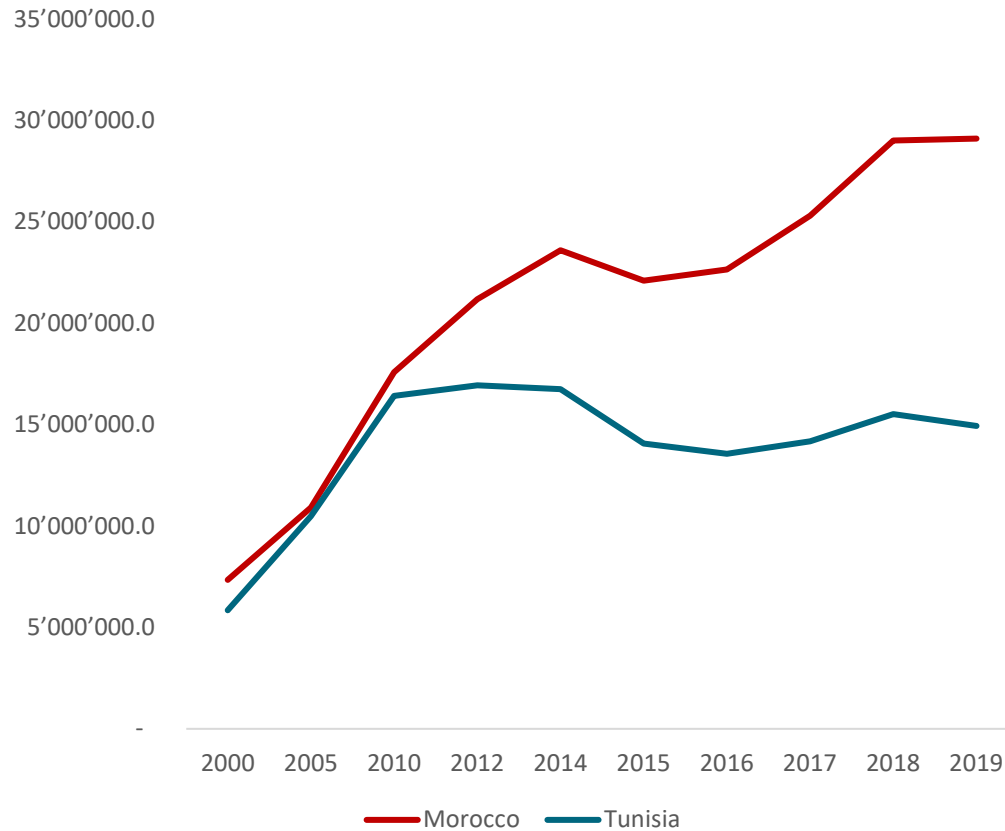


Source: World Bank Doing Business and Enterprise survey data, 2019.

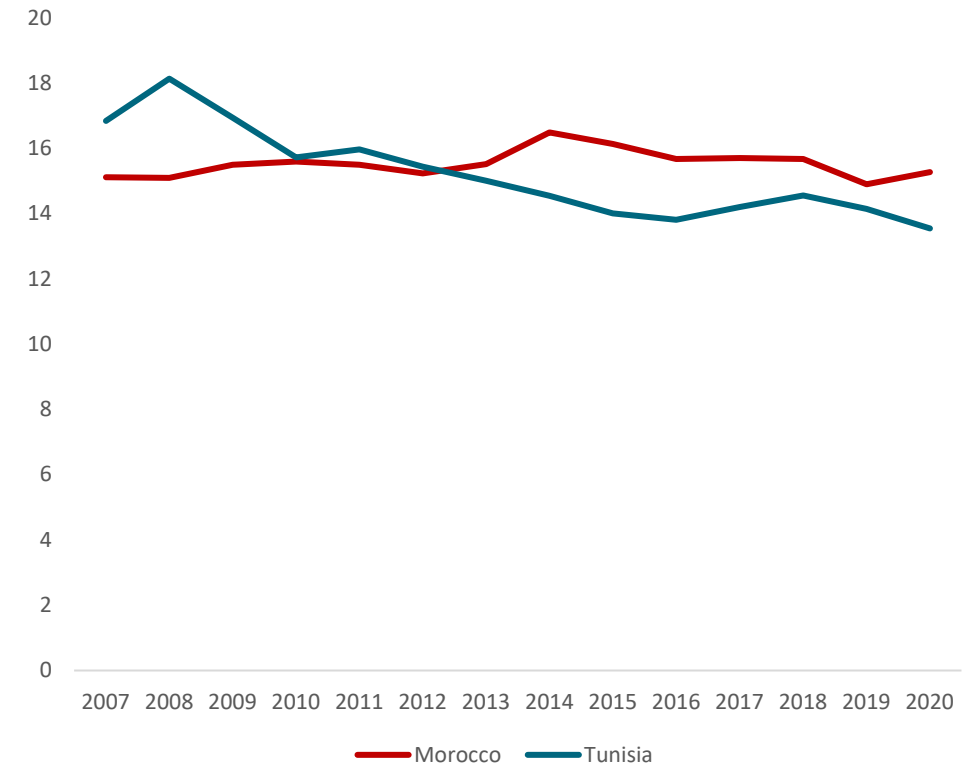


# This divergent path is reflected in a number of development indicators including exports of goods and MVA ...

### Evolution of goods exports Morocco and Tunisia (US\$ thousands)



### Manufacturing value added (% GDP)



Source: UNCTAD

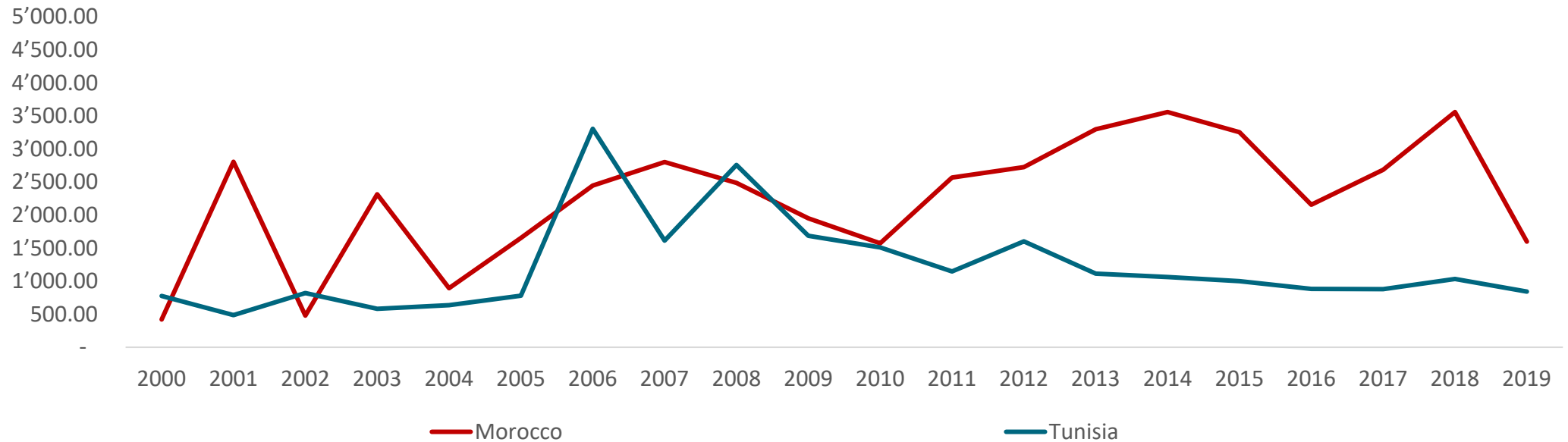




## ... the level of FDI inflows in both countries ...

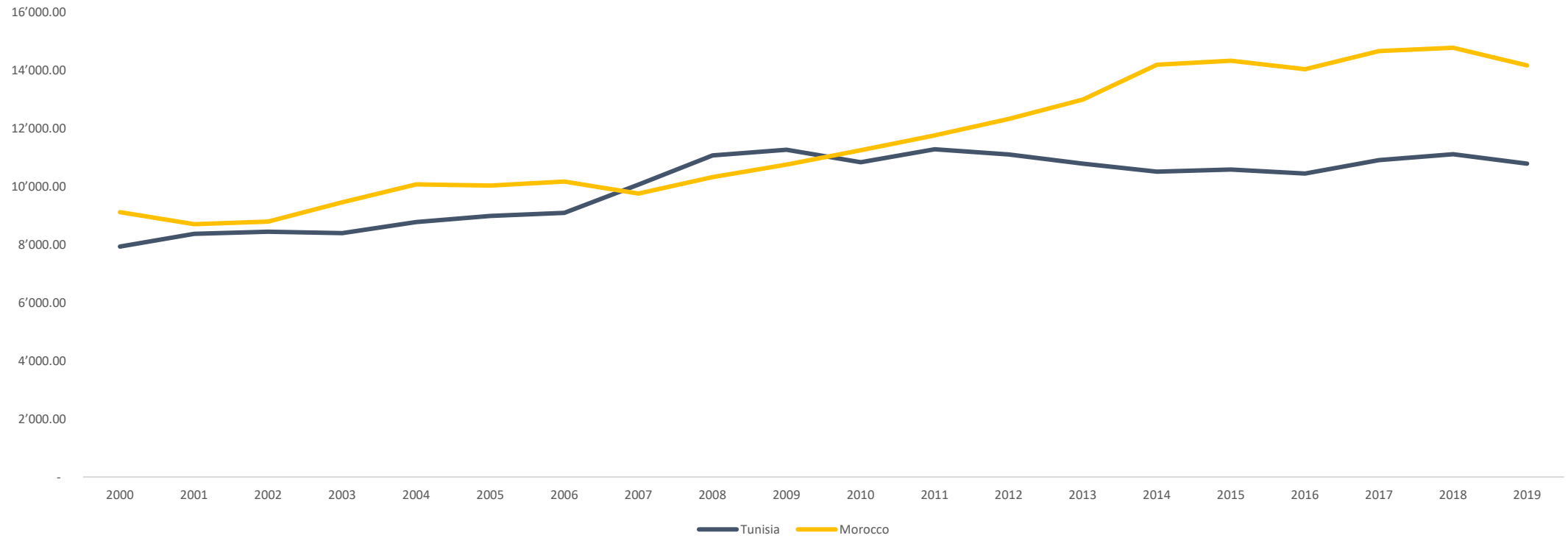
**Morocco** and **Tunisia** received the same levels of FDI from 2008 to 2010. This dynamic changed after the 2011 social movements started in Tunisia. Morocco has benefitted from a relatively stable economic and political environment, which played to the country's advantage in terms of FDI. The gap between Tunisia and Morocco continued to widen until 2019, when FDI flows to Morocco decreased by 55 per cent to US\$1.6 billion. FDI inflows to Tunisia have decreased constantly since 2011, likely affected by the political instability that led to the formation of eight governments in only ten years. In 2019, most FDI inflows in Tunisia went to industry, followed by energy and services (US\$95 million), with a sharp decline in investment in the services sector

### US\$ million





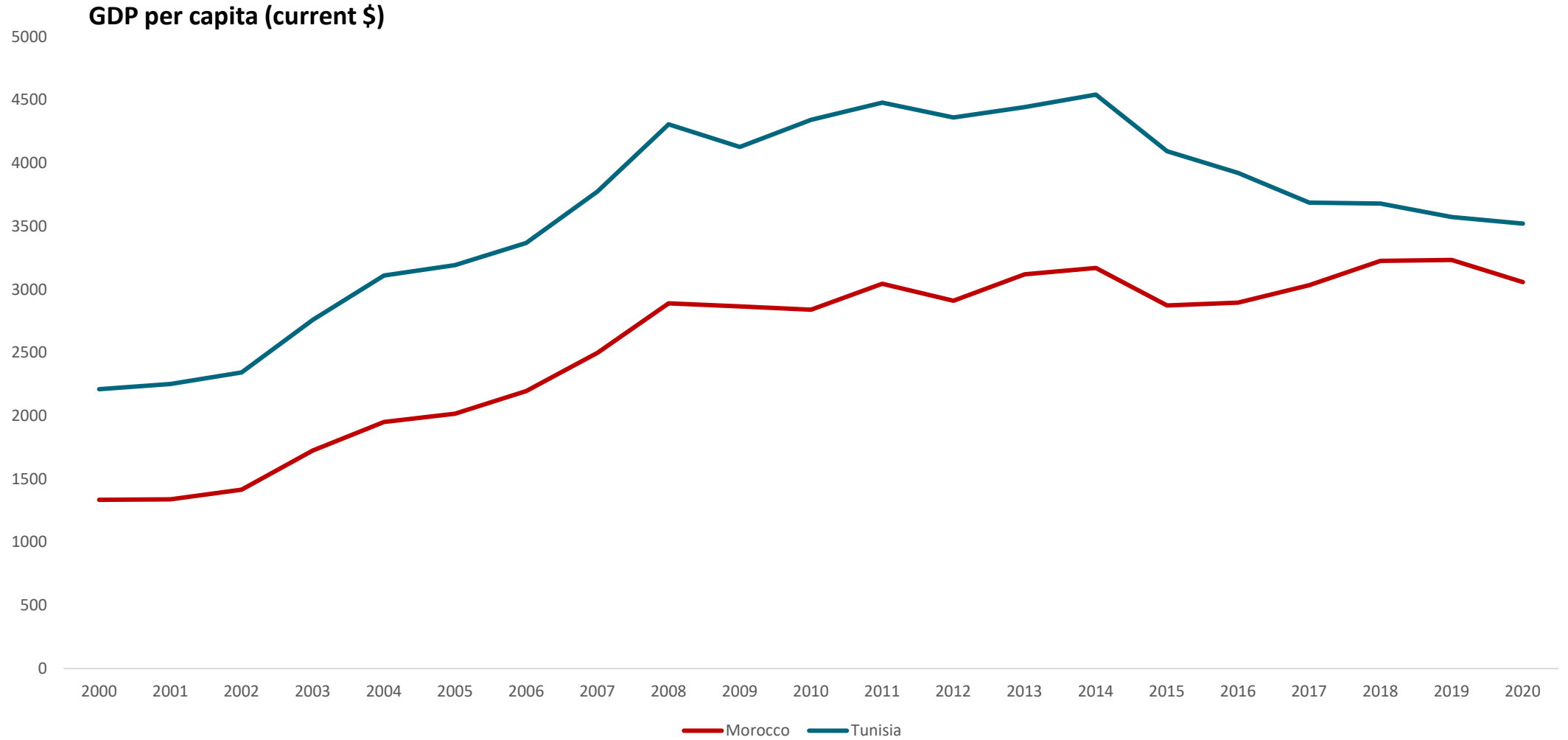
## ... as well as the labour productivity in manufacturing...



Labour productivity is defined here as MVA (constant 2010 US\$)/Total employment, considering the unavailability of the number of hours worked data.

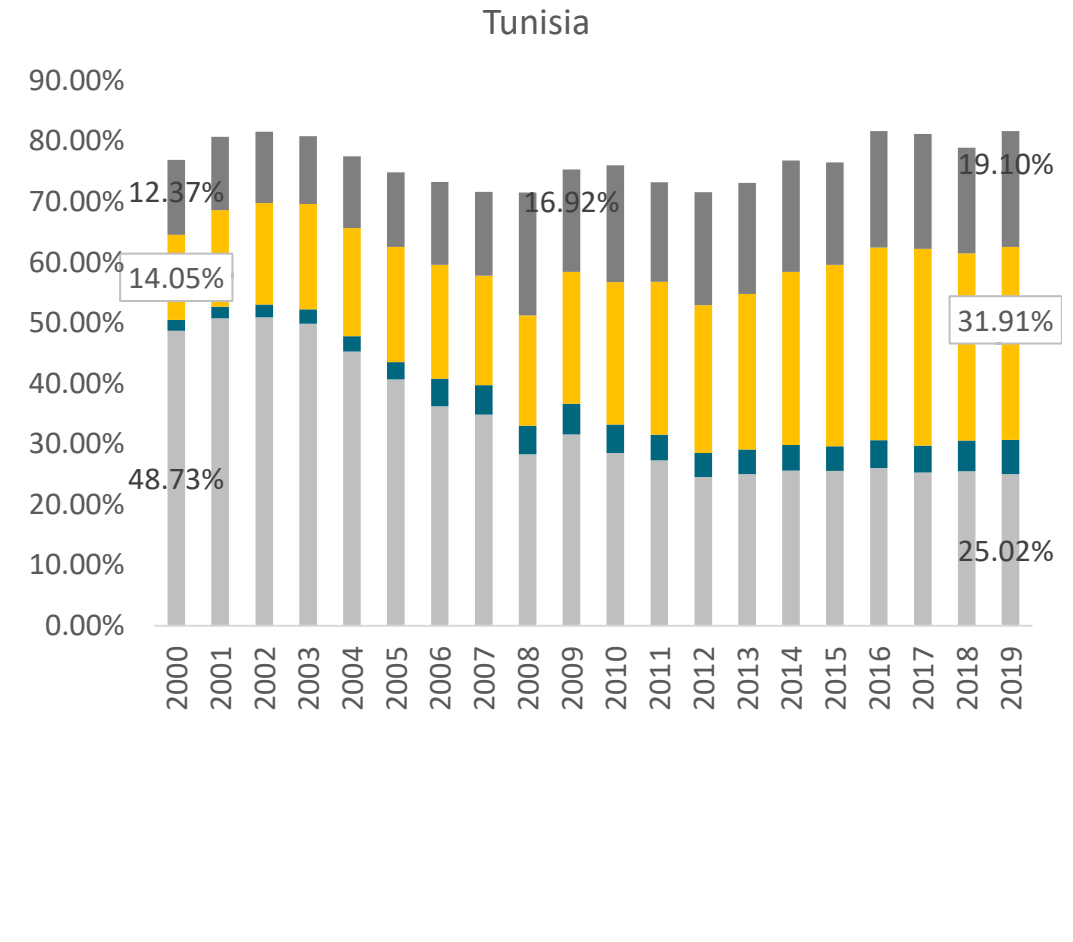
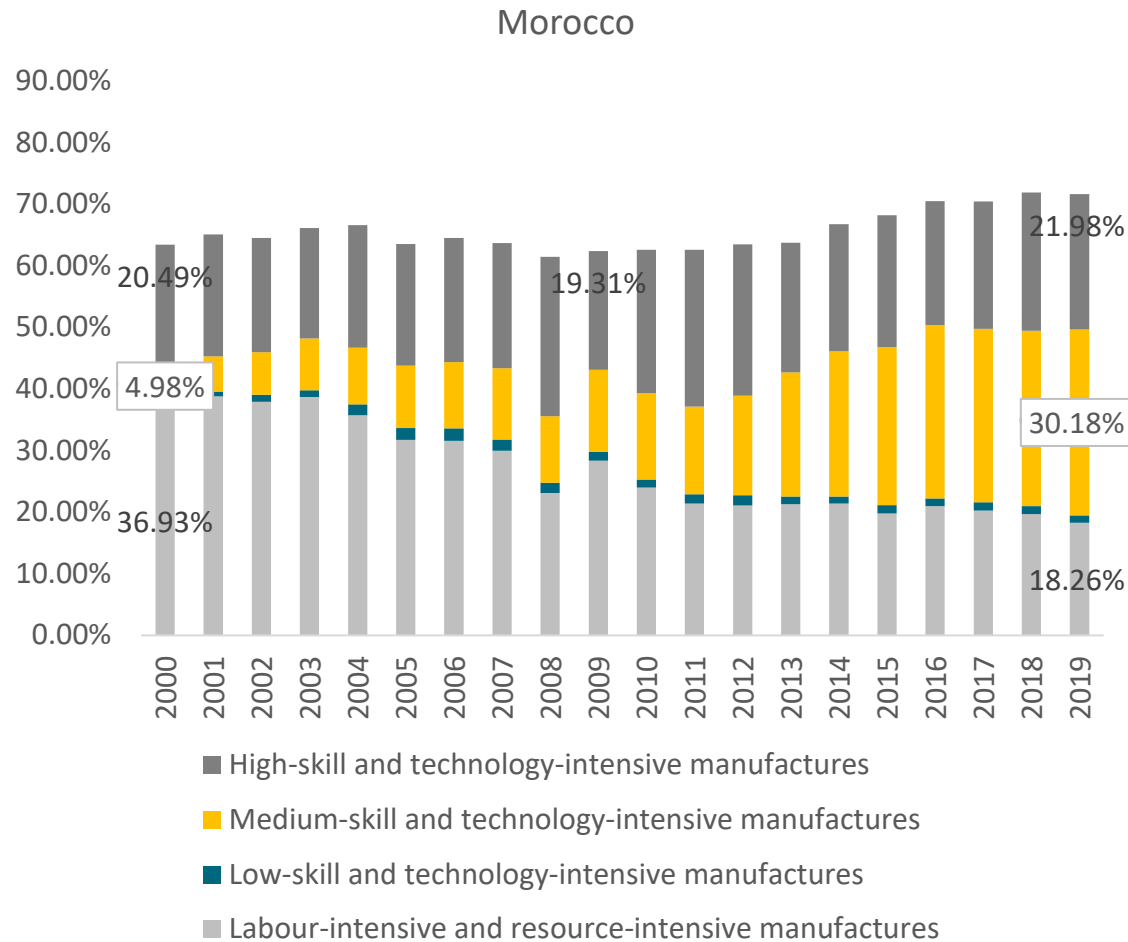


## ... and GDP per capita





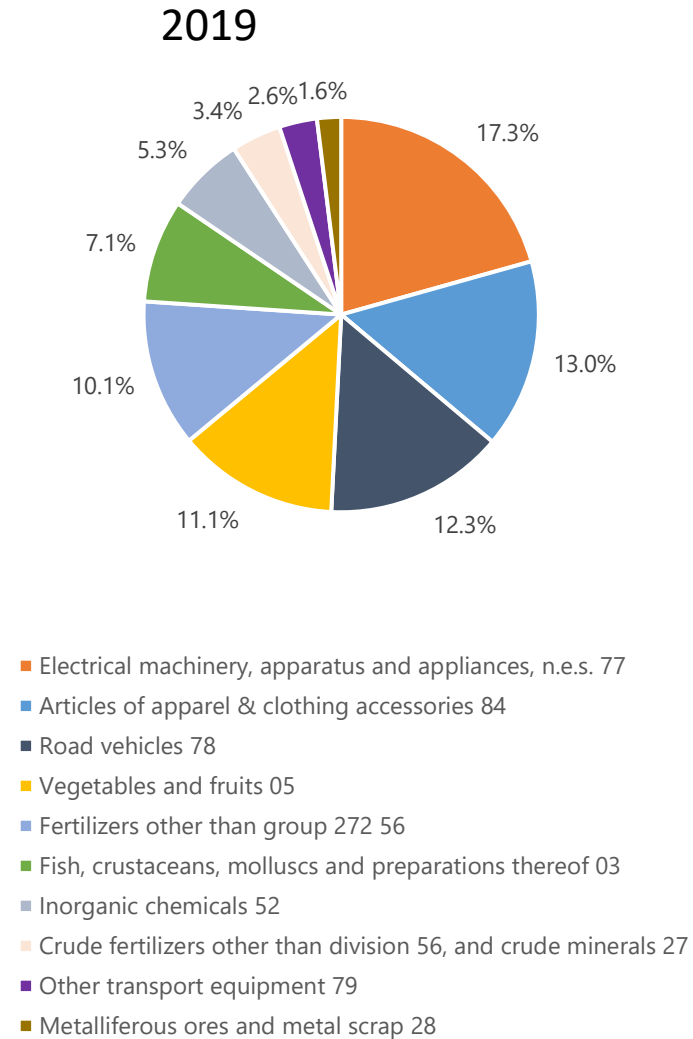
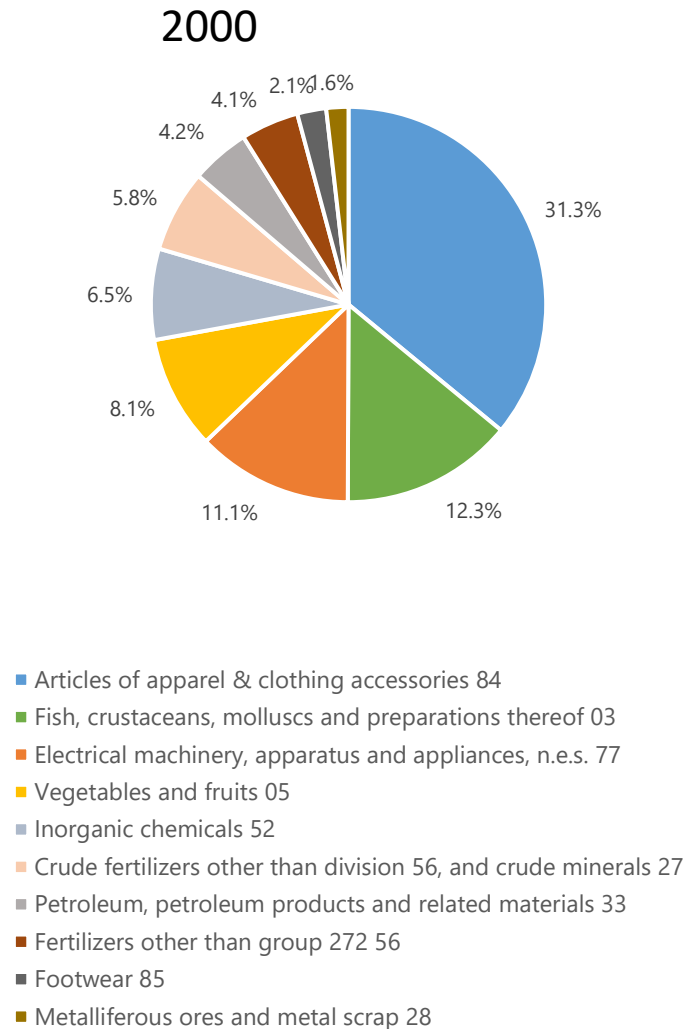
# The intensity of technology and skills in manufacturing goods have improved in both countries, with a small advantage to Morocco



Source: UNCTAD



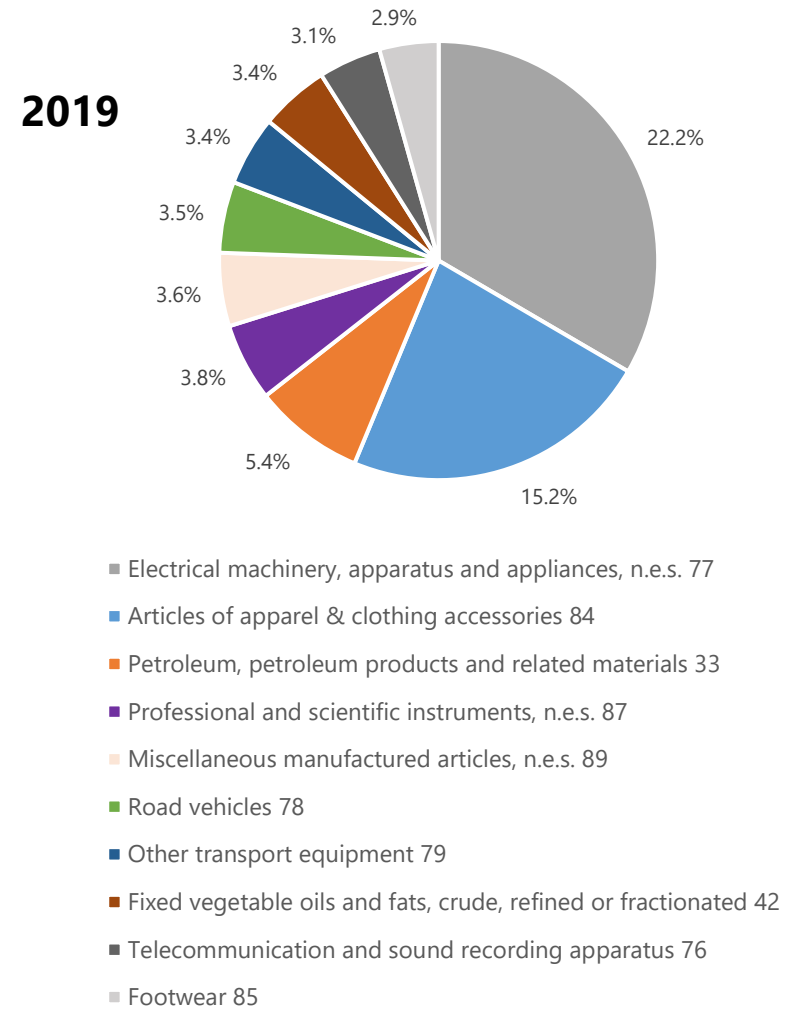
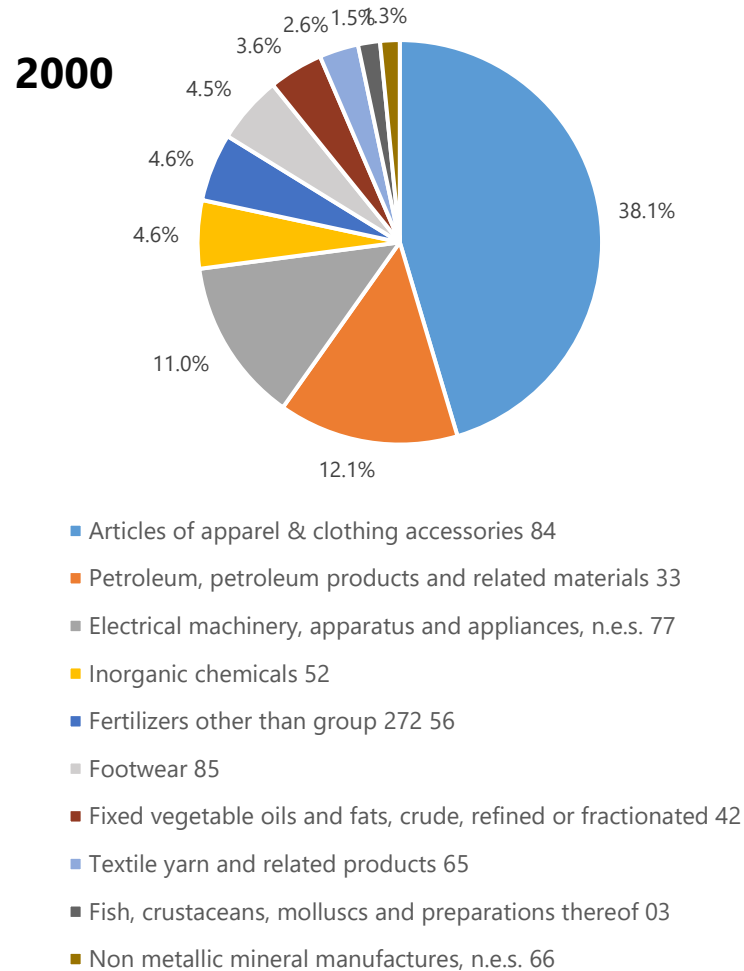
# The evolution of top 10 products exported in Morocco between 2000 and 2019 shows a positive results of the industrial policy



The automotive industry has witnessed the highest level of export growth, driven by investment from anchor enterprises such as Renault, Peugeot-Citroen and the Chinese BYD. This has resulted in a spectacular rise in exports of automotive products (road vehicles – SITC 78) from US\$22.3 million in 2000 to almost US\$3.6 billion in 2019.



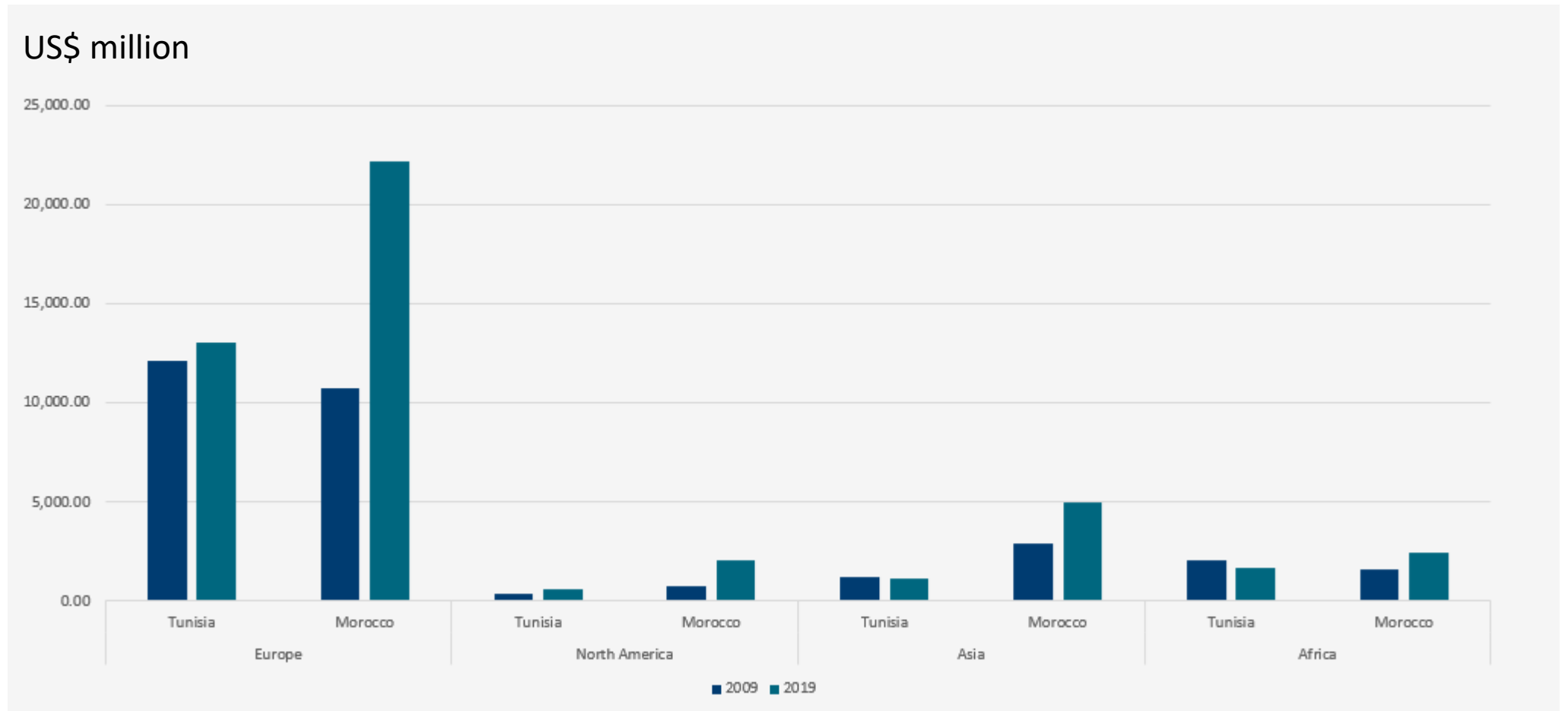
# Tunisia has also witnessed a certain level of evolution of the top 10 products exported between 2000 and 2019, however at a lesser extent than Morocco



Source: UNCTAD - SITC classification

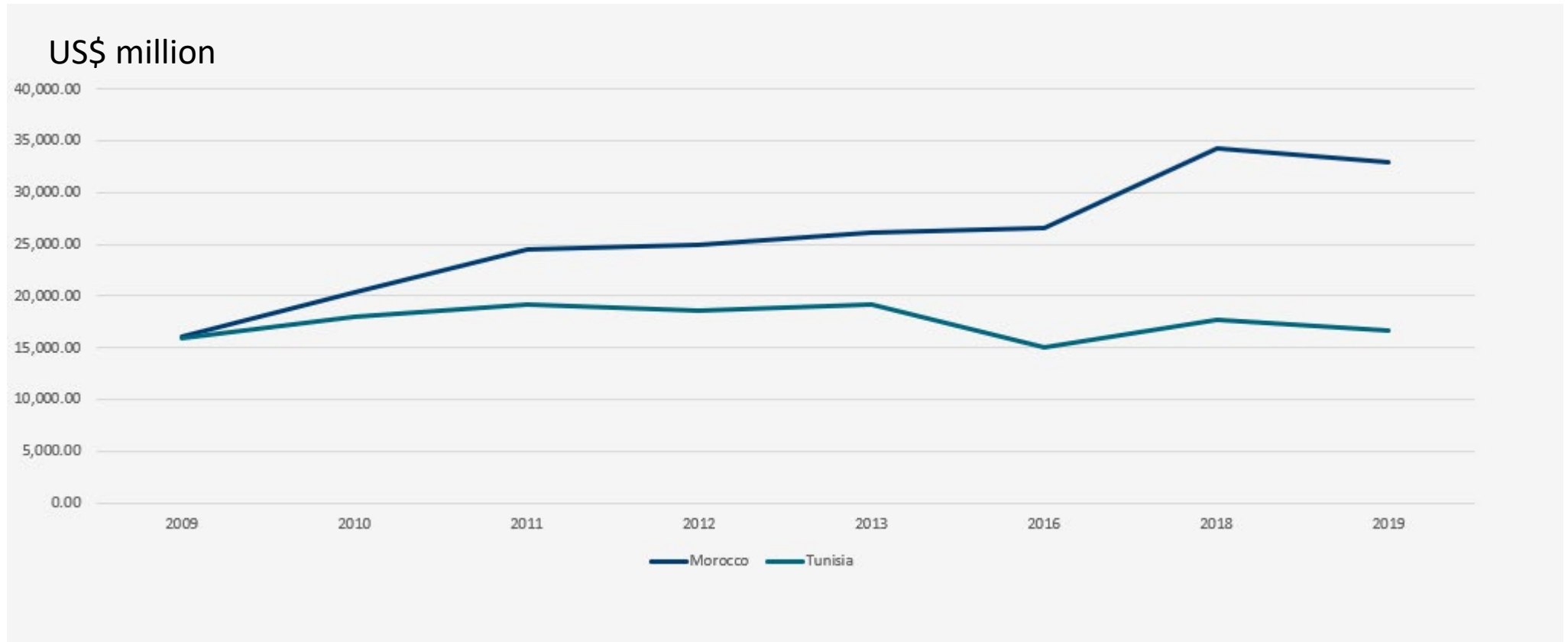


Morocco has also worked on diversifying its exports destinations, while Tunisia remained focused on the main markets – mostly EU





## The evolution of export of phosphate, the main natural resource in both countries, show further the widening gap between both countries

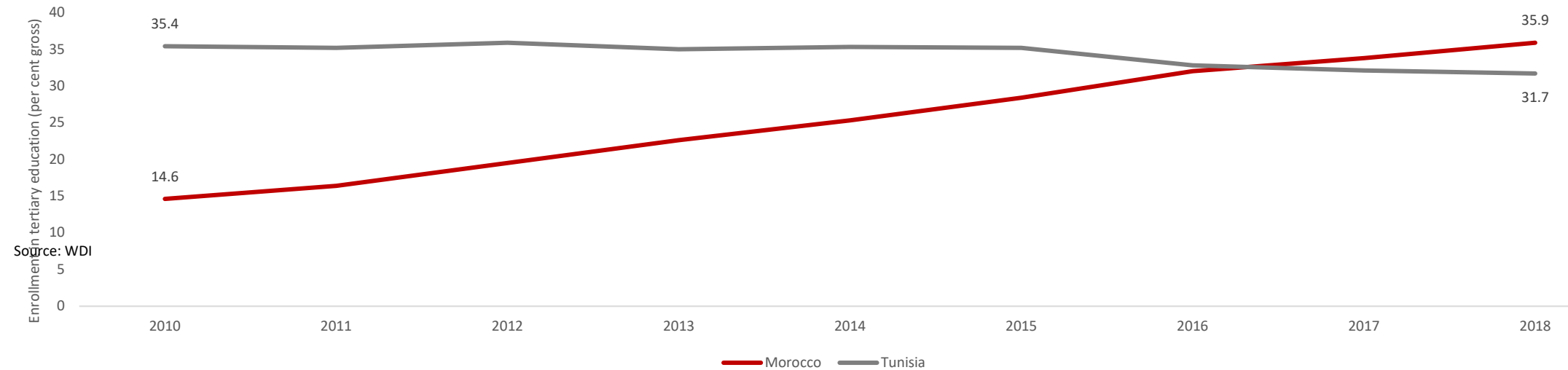






# The human capital was for long the competitive advantage of Tunisia over Morocco but this is changing

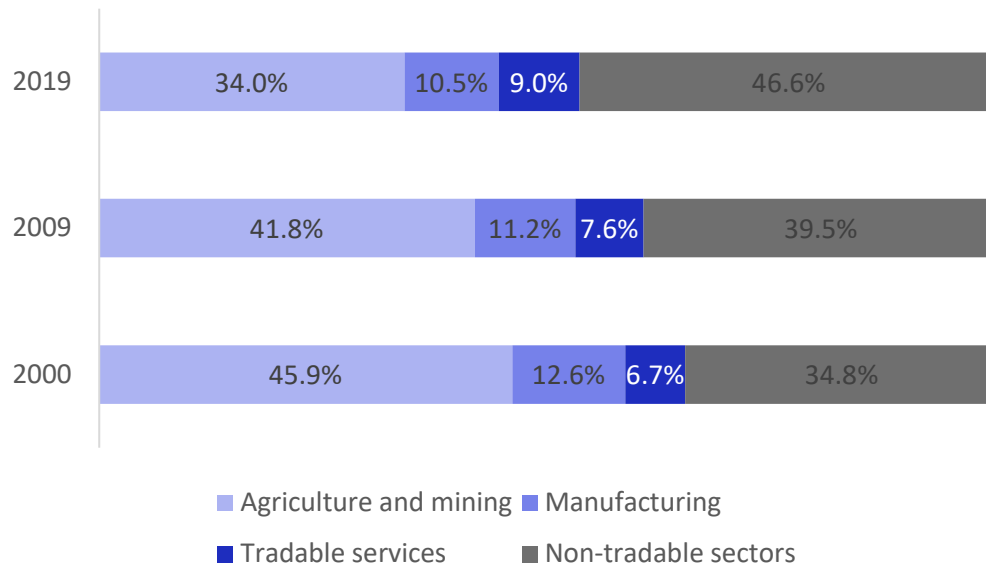
Enrollment in tertiary education (per cent gross) in Tunisia and Morocco since 2010



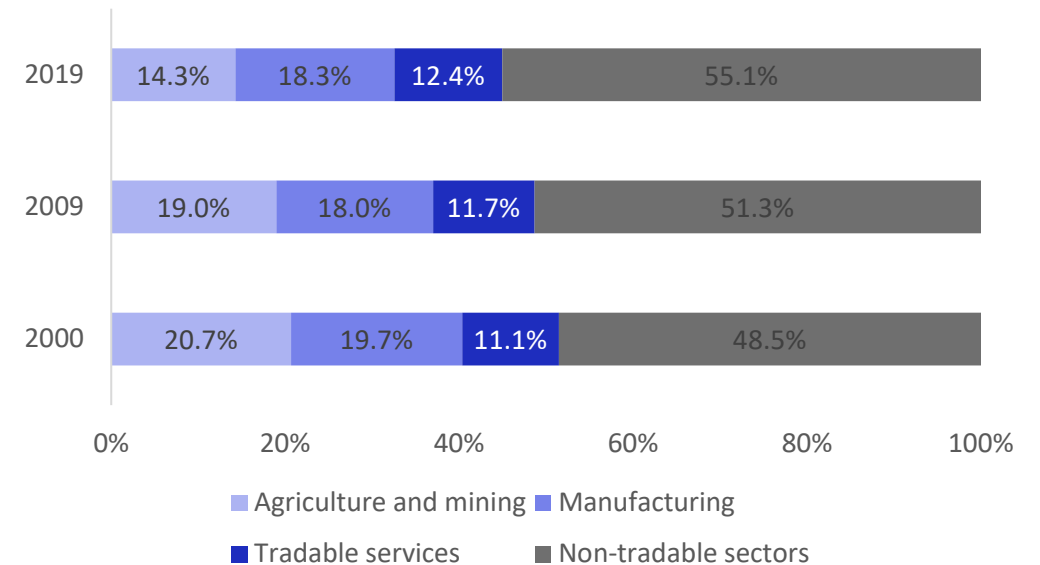


# However, the growth of the manufacturing sector in Morocco has not been job generating and Tunisia remains leading in terms of employment...

► Evolution of employment share of tradable and non-tradable sectors in Morocco, 2000-19



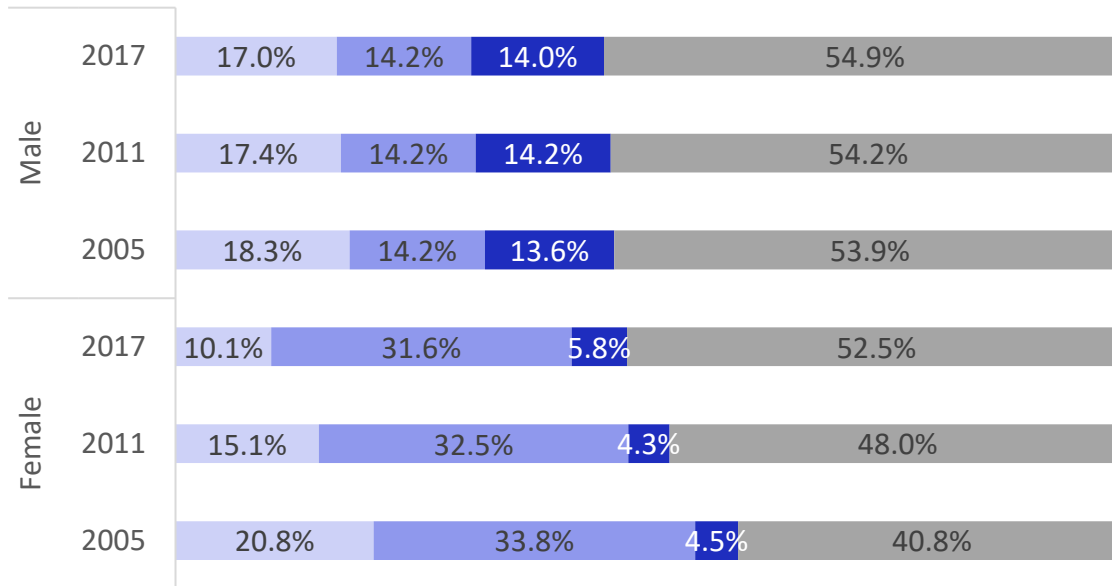
► Evolution of employment share of tradable and non-tradable sectors in Tunisia, 2000-19





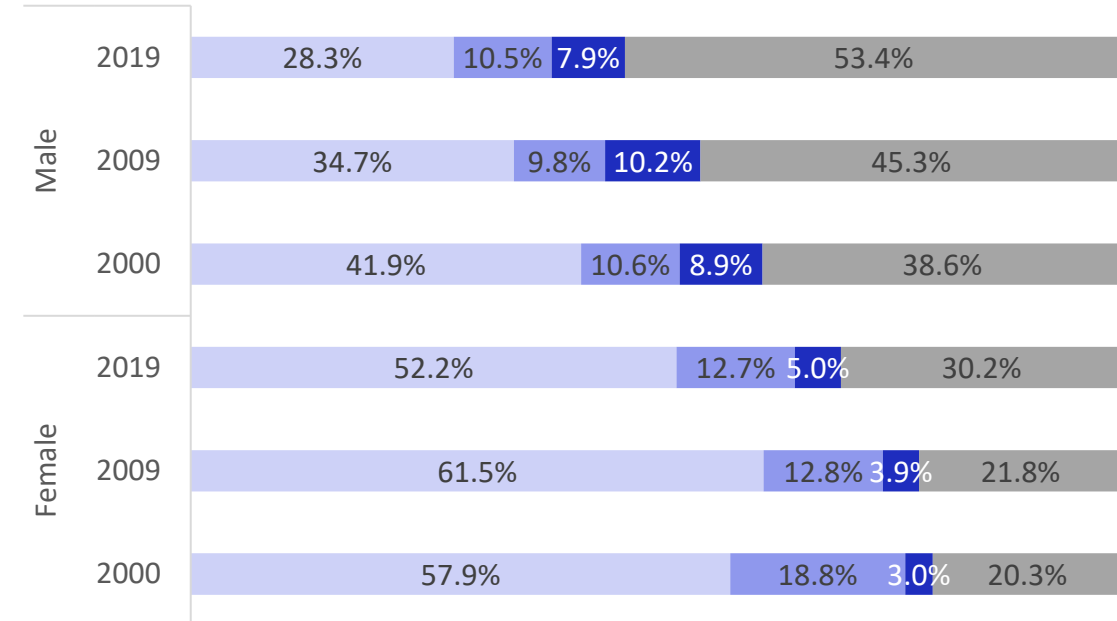
# ... including for female employment, which tends to be more in productive sectors in Tunisia than in Morocco

## Tunisia



■ Agriculture and mining ■ Manufacturing  
■ Tradable services ■ Non-tradable sectors

## Morocco



■ Agriculture and mining ■ Manufacturing  
■ Tradable services ■ Non-tradable sectors



# Conclusions

1

**Political stability** is key for manufacturing development and industrialisation

2

The state should play a **proactive, strategic and enabling role** to develop targeted industries and align necessary inputs and infrastructure for these industries

3

The **self-discovery process in the vertical industrial policies** is very important to align the focus and resources on new comparative advantages revealed in the economy



# Annexes



# Criteria to evaluate the design and implementation of industrial policies

- 1. Selection of sectors:** Is there a selection of sectors, according to a specific and detailed methodology that has been formalized, written and approved? Does the design of the industrial policy follow a “self-discovery” process?
- 2. Actionability:** Is the industrial policy accompanied by a clear implementation plan that identified each stakeholder’s responsibility and defined clear objectives?
- 3. Carrots and sticks:** Are the incentives and support provided in the industrial policy bound in time and conditional to performance?
- 4. Embeddedness/social dialogue:** Was the policy developed in collaboration with different stakeholders, including private sector actors and workers’ and employers’ associations? Is there a systemic use of formalized platforms to engage with the private sector?
- 5. Political support:** Does the industrial policy adopted have the approval and the support of the political leadership?
- 6. Financial commitment:** Is there a financial commitment from public authorities to implement the policies and the support designed for the private sector?
- 7. Institutional settings and transparency:** Do institutions involved in the implementation process have adequate governance, capacity and management to implement these policies? And are there monitoring and evaluation mechanisms that enable data collection, policy evaluation and learning mechanisms? Are the results periodically published?



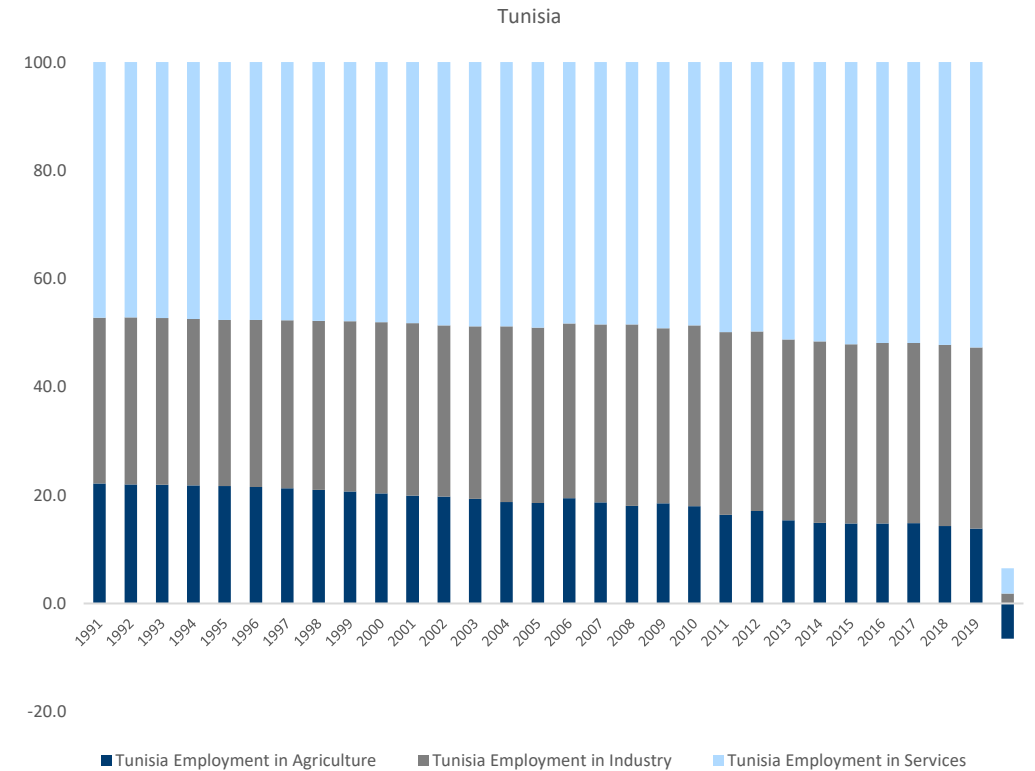
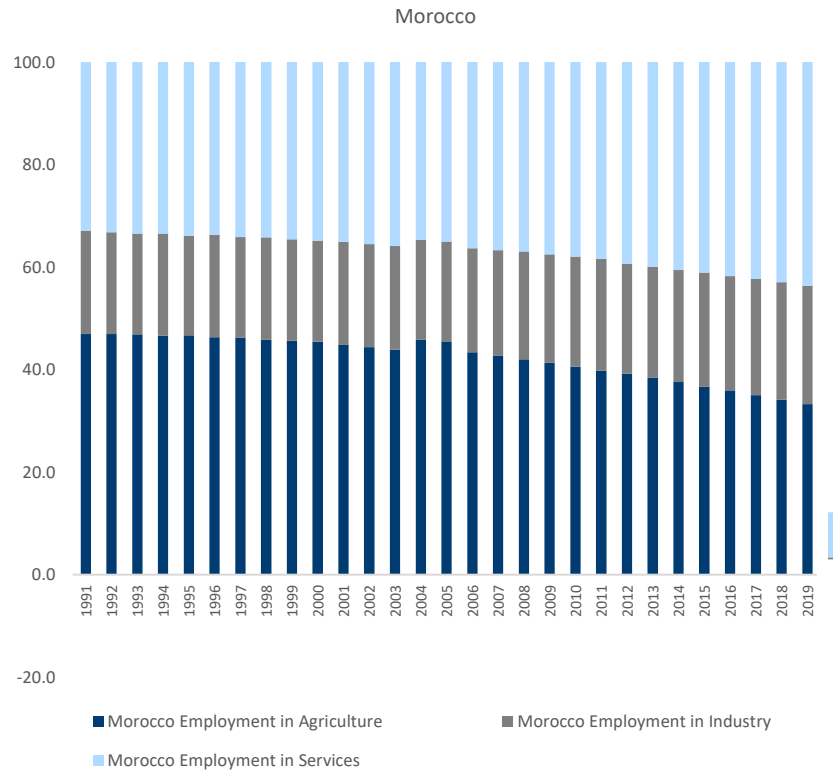
# Evaluation of the design and creation process of industrial policies in both countries

*Legend: + = good; o = acceptable; - = needs improvement.*

Assessment criteria	Countries	
	Morocco	Tunisia
Selection of sectors/self-discovery process	+	o
Actionability	o	o
Carrots and sticks	-	o
Embeddedness	+	o
Political support	+	o
Financial commitment	n/a	n/a
Transparency/institutional settings	o	o



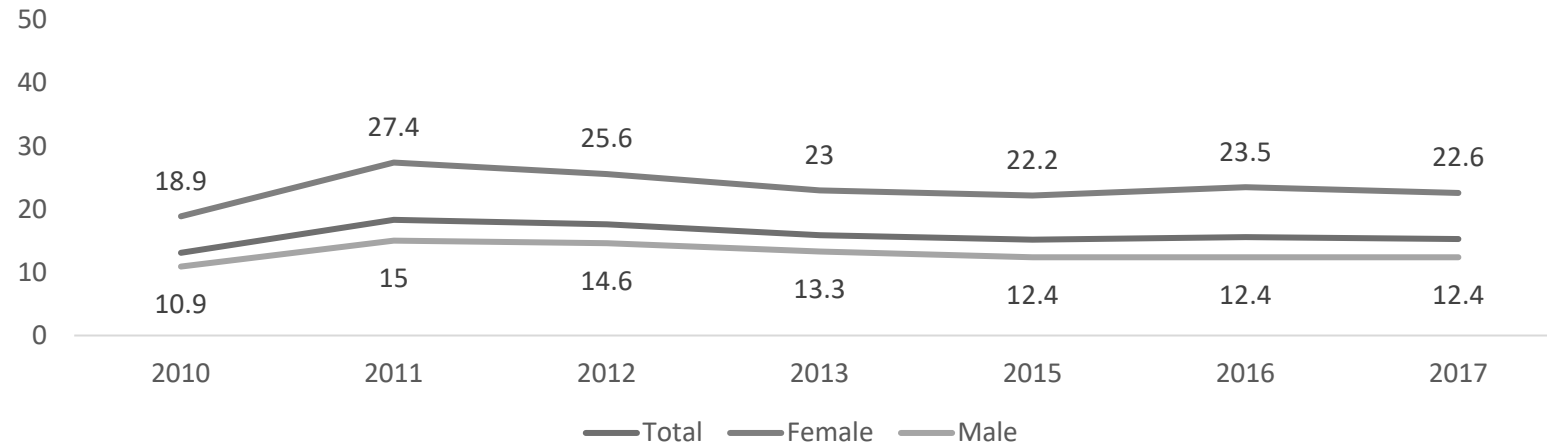
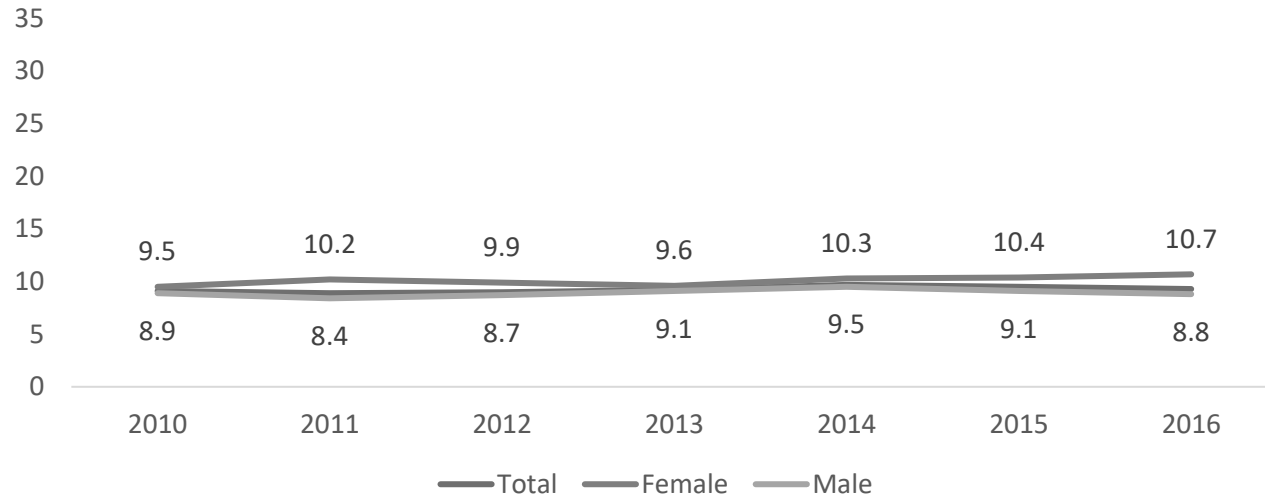
# The Moroccan economy depends more on agriculture than Tunisia







# Unemployment by sex - Morocco and Tunisia





## Both countries witnessed slower structural transformation between 90 and 2010 than before 90s

Both Tunisia and Morocco have made an early shift towards services, bypassing the manufacturing-driven structural change, as levels of GDP per capita remain relatively low in these middle-income countries.

Mouelhi and Ghazali (2020) study the structural transformation in Egypt, Morocco and Tunisia between 1960 and 2010, using the decomposition of labour productivity growth used by McMillan and Rodrik (2011), which aims to identify the source of labour productivity growth, differentiating between within-sector effects and labour reallocation effects.

- Within-sector effects are linked to intrinsic improvements within a sector and demonstrate an improvement in technological capabilities beyond labour.
- Labour reallocation effects translate the productivity gains linked to structural change contribution and to the movement of labour between sectors.

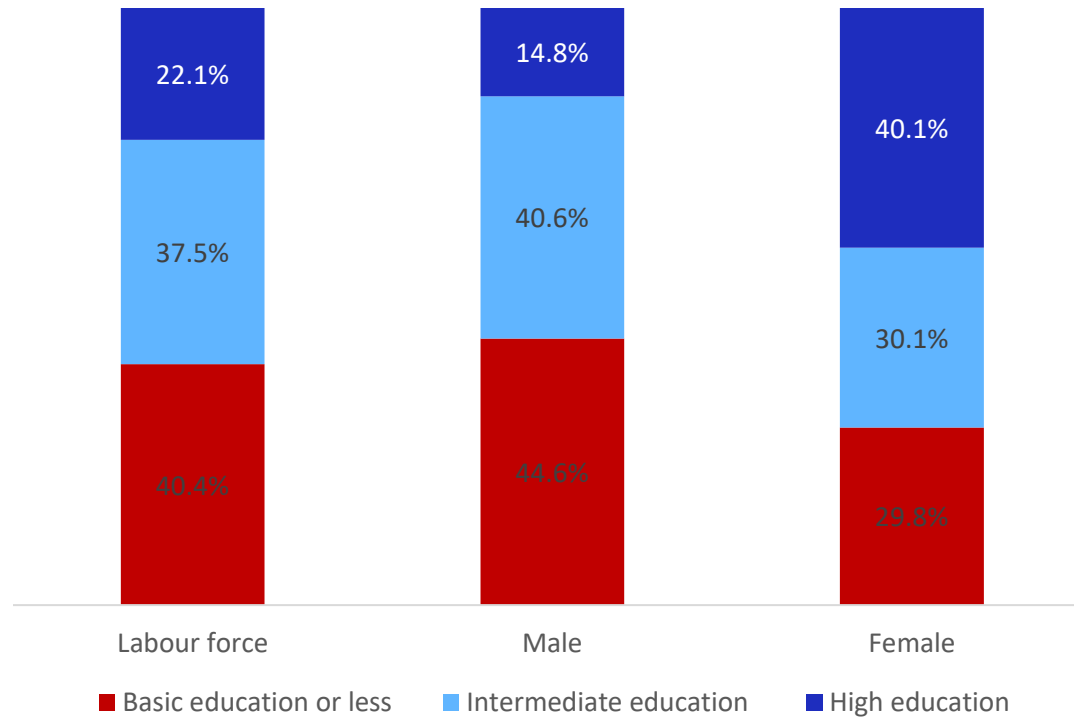
The authors find that the pace of structural transformation in Morocco, Tunisia and Egypt has been higher before 1990 than from 1990 to 2010, during which structural transformation slowed down while countries were still at a low level of development before catching up with the emerging and developed countries.



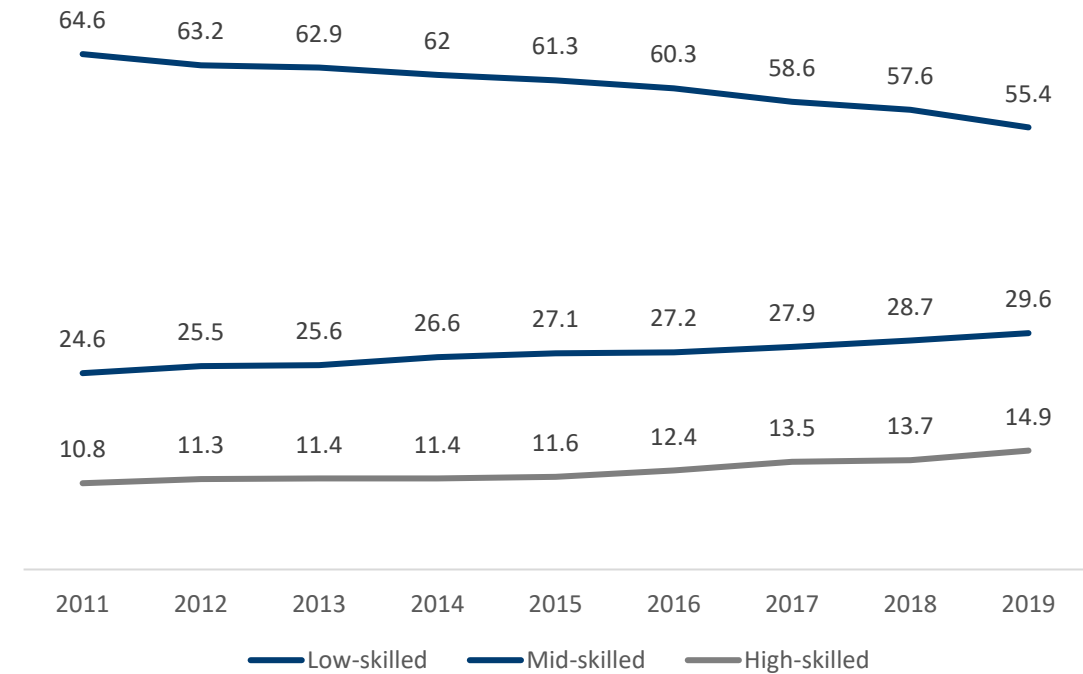
# Human capital – educational attainment in both countries

## Labour force by levels of education and sex

Tunisia – 2017



## Distribution of level of skills of employed in all sectors – Morocco





# Distribution of employment per sector in manufacturing - Tunisia

